



MINUTES OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

For the meeting held on
Tuesday, December 15, 2009
980 9th Street, Conference Center, 2nd Floor
Sacramento, California 95814

Chairwoman Marjorie Berte called the meeting of the California Infrastructure and Economic Development Bank (I-Bank) Board to order at approximately 1:30 p.m.

1. Call To Order and Roll Call.

The following Board members were in attendance:

Marjorie Berte represented the Secretary of the Business, Transportation and Housing Agency.

Laura Zuniga represented the Acting Secretary of the State and Consumer Services Agency.

Tom Sheehy represented the Director of the Department of Finance.

Francisco Lujano represented the State Treasurer.

D. Everett Rice, Governor's appointee.

The following I-Bank staff members were in attendance:

Stanton C. Hazelroth, Roma Cristia-Plant, Molly Arnold, and Paula Connors.

Chairwoman Marjorie Berte announced that the order of the agenda would be changed during the course of the meeting and that items number 2 (Executive Director's Report) and 3 (Minutes from the meeting held on October 27, 2009) would be heard after item number 6.

Action Items:

- 4. Resolution No. 09-46 approving the sale, issuance and delivery of tax-exempt 501(c)(3) revenue bonds for Wildwood School, Inc. in an amount not to exceed \$9,000,000 to refinance tax-exempt California Statewide Communities Development Authority, Series 1999 Bonds and Series 2001 Bonds that financed the acquisition and improvement of economic development facilities in Culver City and the City of Los Angeles, California, and to finance development of additional economic development facilities in Culver City and in the City of Los Angeles, California.**

Ms. Connors presented a staff report describing the request to approve the issuance of tax-exempt 501(c)(3) revenue bonds for Wildwood School, Inc. to refinance tax-exempt California Statewide Communities Development Authority, Series 1999 Bonds and Series 2001 Bonds that financed the acquisition and improvement of economic development facilities in Culver City and the City of Los Angeles, California, and to finance the development of additional economic development facilities in Culver City and in the City of Los Angeles, California. Ms. Connors reported that approval of the transaction would waive the I-Bank's requirement of a credit rating and that the refunding would provide a net present value savings of over \$3 million to the school.

Ms. Connors introduced Peter Christensen, Chief Financial Officer of the Wildwood School and Sam Balisy, of Kutak Rock LLC, bond counsel.

Chairwoman Berte called for questions or comments from the Board or the public. Hearing none, she entertained a motion to approve Resolution No. 09-46. Mr. Sheehy moved to approve the resolution and Mr. Rice seconded the motion. The Board unanimously approved the resolution.

5. Resolution No. 09-47 appointing a firm to serve as bond and disclosure counsel to the California Infrastructure and Economic Development Bank for the State School Fund Apportionment Lease Revenue Bond Program for a period not to exceed five years.

Ms. Connors presented a staff report describing the request to approve appointing the firm, Stradling Yocca Carson & Rauth (Stradling) as bond and disclosure counsel for the State School Fund Apportionment Lease Revenue Bond Program for a period not to exceed five years. She explained that recently enacted legislation directed the I-Bank to issue State School Fund bonds for the King City Joint Unified School District and that the I-Bank could expect to issue more bonds for this program in the coming years. She included background information regarding the \$97 million in bonds the I-Bank sold in 2005 as directed by 2004 legislation to assist financially troubled school districts that included Vallejo, West Contra Costa and Oakland, subsequent refinancing of the bonds issued for Oakland in 2008. Ms. Connors discussed the receipt of proposals from three firms, the evaluation process, and staff's recommendation for selecting the Stradling firm. Ms. Connors introduced Kevin Civale who was representing the firm.

Chairwoman Berte called for questions or comments from the Board or the public. Hearing none, she entertained a motion to approve Resolution No. 09-47. Ms. Zuniga moved to approve the resolution and Mr. Lujano seconded the motion. The Board unanimously approved the resolution.

6. Resolution No. 09-48 adopting an Amended and Restated Preliminary Loan Guarantee Commitment for the Imperial Irrigation District (IID), clarifying the terms of the preliminary loan guarantee commitment granted to the IID on June 27, 2003 and extending the term of that commitment for a period of not to exceed one year.

Ms. Arnold presented a staff report regarding the request for adopting an Amended and Restated Preliminary Loan Guarantee Commitment for the Imperial Irrigation District (IID), clarifying the terms of the preliminary loan guarantee commitment granted to the IID on June 27, 2003. Ms. Arnold explained that the existing preliminary guarantee would expire by its terms on December 31, 2009, unless extended by the Board, and that staff's proposal was to extend the term of that preliminary commitment, as clarified, for six months. Ms. Arnold referred to an attachment to the staff report (the "Term Sheet") and explained that the center column of the Term Sheet reflected clarified terms of the 2003 commitment (the "2003 Preliminary Commitment") that had been agreed upon by I-Bank staff and the IID, except to the extent an alternative proposal of the IID was reflected in the third column of the Term Sheet. She explained that the extension of the

2003 Preliminary Commitment was being requested in order for I-Bank staff and the IID to reach an agreement as to the terms of a final guarantee.

Chairwoman Berte and Mr. Sheehy asked several questions of Ms. Arnold to clarify that the issues being presented to the Board were whether or not to extend the 2003 Preliminary Commitment, and if so, for what specified period and under what terms. Ms. Arnold confirmed that those issues were before the Board and that a Board action on the I-Bank staff's proposal would result in a preliminary guarantee commitment for the benefit of IID under the terms agreed to by the Board.

There was then a general discussion among the Board members that an extension of the preliminary guarantee commitment for a year appeared to be appropriate.

Mr. Sheehy then instructed staff to review investment options for the funds in the Guarantee Trust Fund given the possibility of an extended guarantee period. Ms. Arnold indicated that staff could review investment options other than the State's Pooled Money Investment Account consistent with statutory requirements and report back to the Board.

Chairwoman Berte then began a discussion of the Term Sheet attached to the staff report. Ms. Arnold confirmed that the center column of the Term Sheet included terms that staff had determined to be consistent with the 2003 Preliminary Commitment and that, except to the extent there was something in the right hand column of the Term Sheet, that the terms in the center column had been accepted by the IID. Chairwoman Berte stated that there appeared to be no reason to discuss any items in the Term Sheet agreed to by both the I-Bank and IID.

John Carter, Chief Water Rights Counsel for IID and Don Hunt of Fulbright and Jarowski, bond counsel to IID, spoke to the Board, explaining that clarification of the terms of the 2003 Preliminary Commitment had been agreed upon by IID in an effort to achieve a final loan guarantee by the end of 2009. They stated that, at this time, the IID would prefer to extend the 2003 Preliminary Commitment for the year period without any clarifications to allow further opportunity to clarify the 2003 Preliminary Commitment. Both Chairwoman Berte and Mr. Sheehy expressed strong concerns about simply extending the 2003 Preliminary Commitment, and instead endorsed the idea of incorporating into the extension process the progress that had been made where there was no disagreement between the I-Bank and IID so as to not sacrifice the work that has been done to date.

Mr. Sheehy then discussed his concerns with the IID proposal to clarify the Purpose of the Guarantee. He stated that he didn't see how any reasonable person could interpret the Purpose of the Guarantee as set forth in the 2003 Preliminary Commitment as broadly as had been proposed by IID. Mr. Sheehy also commented on the IID's proposal pertaining to the Reimbursement and Indemnification term. He stated that he found the idea of subordinating IID's reimbursement obligation to all capital needs of the IID to be offensive. He urged IID to be much more realistic in future negotiations.

Both Mr. Lujano and Ms. Zuniga stated support for a one year extension of the preliminary commitment on the agreed upon terms. Chairwoman Berte also stated that she could not support

IID's proposal regarding the Purpose of the Guarantee, and that she was in agreement with Mr. Sheehy's point regarding subordination the I-Bank's reimbursement rights. Chairwoman Berte then stated that she would support flexibility as to the required date for the original issuance of bonds, and that the IID proposal reflecting the anticipation that bonds would be issued in 2010, but that the initial issuance of bonds not be required until 2015 was acceptable to her. She also expressed willingness to be flexible as to the maximum term of any guaranteed bonds.

In response to a question from Mr. Rice, Ms. Arnold explained that no standard subordination policies had been adopted for the IID guarantee because it was a unique product of the I-Bank. She explained that I-Bank staff had agreed that it would be reasonable for the IID's reimbursement obligation to be subordinate to its obligations to the holders of guaranteed bonds and existing IID bonds, but that I-Bank staff sought control over the issuance of future bonds to which the IID's reimbursement obligations would be subordinate.

Chairwoman Berte expressed a concern that the language of Section 4 of the proposed resolution required that any form of final guarantee and related reimbursement and indemnification agreement be consistent with the clarifications of the 2003 Preliminary Commitment approved by the Board, because the members' discussion indicated the likelihood that not all terms of the 2003 Preliminary Commitment would be clarified. To address this concern, Ms. Arnold proposed an amendment to Section 4 to state that any proposed form of final guarantee and proposed form of a related reimbursement and indemnification agreement that are presented to the Board for approval must be consistent with "the 2003 Preliminary Loan Guarantee Commitment as clarified and restated in the Clarified Preliminary Commitment," which would leave provisions not clarified by the Board as set forth in the 2003 Preliminary Commitment.

Mr. Rice reconfirmed the discussion to that point, stating that under consideration was a one year extension of the 2003 Preliminary Commitment, subject to the agreed-upon terms in the center column of the Term Sheet, with the disputed items subject to further negotiations taking into account the non-binding guidance provided by the Board. Chairwoman Berte clarified further that the disputed terms would remain as set forth in the 2003 Preliminary Commitment. Mr. Sheehy encouraged the IID to continue to work with the I-Bank staff to find ways to narrow the differences on those issues the Board members had discussed.

Mr. Lujano submitted a motion, seconded by Mr. Sheehy, for a one year extension of the 2003 Preliminary Commitment, the acceptance of the clarified terms agreed to by the I-Bank and IID, along with a request for periodic status updates to the board.

Don Carter expressed his thanks in advance of a Board vote on the resolution for the hard work by the I-Bank staff and affirmed that the IID is committed to proceed and will continue to work diligently on resolving the remaining outstanding issues to arrive at a final guarantee decision.

The Board unanimously approved the resolution as amended by the Board. A copy of the approved resolution is attached to these minutes.

2. Executive Director's Report.

Executive Director, Stan Hazelroth presented the Executive Director's Report and stated the following:

- The Bankruptcy court has approved a plan of liquidation for the COPIA Bankruptcy. The plan includes the authorization of the formation of a trust to sell the COPIA property for the benefit of the 2007 bondholders. News reports state that bids on the property have been received, but the I-Bank has not heard from ACA, the bond insurer, that any sale of the property has taken place. The 1999 I-Bank COPIA bonds were paid in full on December 1.
- Litigation update on *George vs I-Bank* (the new name of the securities law case related to the 2007 COPIA Bonds) includes the following:
 - I-Bank filed a motion to dismiss the complaint, asserting that the plaintiff had not asserted all the necessary requirements of a securities law suit.
 - The motion will be heard on February 8, 2010.
- Litigation update on the *Hollywood Park* case:
 - The Court of Appeal has issued a decision that results in a determination that the tribal compacts, the sale of the tribal compact assets and the special purpose trust's bonds and related documents are valid.
 - Plaintiffs had until December 7 to seek Supreme Court review of the decision, and no such petition has been filed.
 - The sale of the tribal compact assets by I-Bank can proceed and the special trust can issue bonds. The I-Bank is waiting for direction from the Department of Financing regarding timing.

Consent Item:

3. Approve minutes from the meeting held on October 27, 2009.

Chairwoman Berte called for questions or comments from the Board and the public. Hearing none, she entertained a motion to approve this consent item. Mr. Sheehy moved to approve the minutes and Mr. Lujano seconded the motion. The minutes were approved by Chairwoman Berte, Mr. Sheehy and Mr. Lujano. Mr. Rice and Ms. Zuniga abstained indicating that they were not present at the October meeting.

Other Non-Action Business.

Chairwoman Berte called for any other non-action business. There was none.

Public Comment.

Chairwoman Berte called for any public comment. There was none.

Adjournment.

Chairwomen Berte declared the meeting adjourned at approximately 2:30 p.m.

RESOLUTION NO. 09-48

**RESOLUTION OF THE CALIFORNIA INFRASTRUCTURE AND
ECONOMIC DEVELOPMENT BANK ADOPTING A CLARIFIED AND
RESTATED PRELIMINARY LOAN GUARANTEE COMMITMENT FOR
THE IMPERIAL IRRIGATION DISTRICT, CLARIFYING AND
RESTATING THE TERMS OF THE PRELIMINARY LOAN
GUARANTEE COMMITMENT GRANTED TO THE IMPERIAL
IRRIGATION DISTRICT ON JUNE 27, 2003, AND EXTENDING THE
TERM OF THE PRELIMINARY LOAN GUARANTEE COMMITMENT
AS SO CLARIFIED AND RESTATED UNTIL JUNE 30, 2010.**

WHEREAS, the California Infrastructure and Economic Development Bank (the "I-Bank") is formed within state government for the purpose of administering the provisions of the Bergeson-Peace Infrastructure and Economic Development Bank Act (the "Act"); and

WHEREAS, the Act authorizes the I-Bank to insure all or part of any series of bonds issued by a sponsor, as defined in the Act, using funds available therefore on deposit in the California Infrastructure Guarantee Trust Fund (the "Guarantee Trust Fund"); and

WHEREAS, on May 13, 2003, the Imperial Irrigation District (the "IID") submitted to the I-Bank an application seeking a preliminary loan guarantee commitment in accordance with certain proposed criteria, priorities and guidelines of the I-Bank for the purpose of obtaining financial assistance in order to issue revenue bonds required to finance \$150 million of net project costs ("IID Preliminary Application") of a water supply project consisting of water conservation measures designed to assure that California would continue to receive the maximum amount of water from the Colorado River (the "Proposed Water Conservation Project"); and

WHEREAS, on May 28, 2003, this Board adopted Resolution No. 03-16, adopting criteria, priorities and guidelines ("Criteria") to implement a guarantee program for the purpose of providing financial assistance so that the IID could issue revenue bonds to finance the Proposed Water Conservation Project (the "IID Guarantee Program"); and

WHEREAS, pursuant to Resolution No. 03-16, this Board also authorized the Executive Director of the I-Bank to transfer \$20 million from the California Infrastructure and Economic Development Bank Fund to the Guarantee Trust Fund for the IID Guarantee Program; and

WHEREAS, pursuant to Resolution No. 03-16, \$20 million was transferred to the Guarantee Trust Fund, and as a result of investments of that deposit, the amount on deposit in the Guarantee Trust Fund for the IID Guarantee Program is currently approximately \$24.1 million; and

WHEREAS, on June 27, 2003, this Board adopted Resolution No. 03-18, finding that the IID Preliminary Application was consistent with the Criteria and the Act, and approving a preliminary loan guarantee commitment for the IID (the "2003 Preliminary Loan Guarantee Commitment"); and

WHEREAS, pursuant to Resolution No 03-18, the 2003 Preliminary Loan Guarantee Commitment is to expire on December 31, 2009, unless extended in writing by this Board; and

WHEREAS, throughout 2009, staff and representatives of the I-Bank and the IID have engaged in discussions regarding the issuance of a final loan guarantee pursuant to the terms of the 2003 Preliminary Loan Guarantee Commitment; and

WHEREAS, on October 1, 2009, the I-Bank received an application from the IID for a final loan guarantee pursuant to the 2003 Preliminary Loan Guarantee Commitment (the "IID Final Guarantee Application"); and

WHEREAS, I-Bank staff have determined that the IID Final Guarantee Application is substantially complete for purposes of meeting the application deadline of the Criteria, but has also notified IID that the IID Final Guarantee Application seeks a guarantee with terms that I-Bank staff are unable to conclude are consistent with the terms of the 2003 Preliminary Loan Guarantee Commitment; and

WHEREAS, I-Bank staff and the IID seek approval of the I-Bank Board of proposed clarifications and restatements of the terms of the 2003 Preliminary Loan Guarantee Commitment and an extension of time in order to draft guarantee agreements and reimbursement and indemnification agreements consistent with the clarified and restated terms of the 2003 Preliminary Loan Guarantee Commitment; and

WHEREAS, the IID has informed I-Bank staff of its intention to issue debt obligations in the first quarter of 2010, and that IID anticipates that such debt obligations will be eligible for a guarantee issued pursuant to the terms of the 2003 Preliminary Loan Guarantee Commitment;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the California Infrastructure and Economic Development Bank, as follows:

Section 1. The above findings are true and correct in all material respects.

Section 2. The clarified and restated terms of the 2003 Preliminary Loan Guarantee Commitment as set forth in the term sheet attached to this Resolution and incorporated herein by this referenced (the "Term Sheet") are consistent with the Act and the Criteria.

Section 3. The term of the 2003 Preliminary Loan Guarantee Commitment as clarified and restated in the Term Sheet (the "Clarified Preliminary Commitment") is hereby extended until December 31, 2010 for the purpose of permitting I-Bank staff and IID staff and representatives sufficient time to draft final guarantee agreements and reimbursement and indemnification agreements consistent with the Clarified Preliminary Commitment.

Section 4. Any proposed form of final guarantee and proposed form of a related reimbursement and indemnification agreement that are presented to this Board for approval must be consistent with the 2003 Preliminary Loan Guarantee Commitment as clarified and restated in the Clarified Preliminary Commitment; reflected in substantially final documents pertaining to the bonds that are anticipated to be guaranteed by the proposed final guarantee that have been received by the I-Bank within sufficient time to be reflected in any proposed form of final guarantee and any proposed form of reimbursement and indemnification agreement; and presented to this Board for approval on or before December 31, 2010.


Section 5. This resolution shall take effect from and after its adoption.

PASSED, APPROVED, AND ADOPTED this 15th day of December, 2009, by the following vote:

AYES: Sheehy, Lujano, Berte, Zuniga, Rice
NOES: NONE
ABSENT: NONE
ABSTAIN: NONE


Stanton C. Hazelroth, Executive Director

ATTEST:


Roma Cristia-Plant, Secretary
of the Board of Directors

Attachment 1
Resolution No. 09-48
December 15, 2009

California Infrastructure and Economic Development Bank
Imperial Irrigation District Loan Guarantee
Clarified and Restated Preliminary Loan Guarantee Commitment
Term Sheet

Term/Condition	Clarification and Restatement of the 2003 Preliminary Loan Guarantee Commitment	IID Proposal
Purpose of the Guarantee	To address the financial risk to the Imperial Irrigation District (IID) of early termination of the Quantification Settlement Agreement ¹ and the Related Agreements ² (jointly, the "QSA and Related Agreements") as understood by the I-Bank Board in July of 2003.	To address the financial risk to the IID that Conserved Water Revenues ³ would be insufficient to pay operation and maintenance expenses for the conserved

¹ The Quantification Settlement Agreement dated as of October 10, 2003, by and among IID, the Metropolitan Water District of Southern California, and Coachella Valley Water District.

² As defined in the Quantification Settlement Agreement and as those agreements existed as of October 10, 2003.

³ Revenues received by IID from the sale of water made available for sale as a result of projects undertaken by IID to meet its obligations under the QSA and Related Agreements ("Conserved Water") net of operating costs related to those projects.

Term/Condition	Clarification and Restatement of the 2003 Preliminary Loan Guarantee Commitment	IID Proposal
	<p>One of the anticipated termination events disclosed to the I-Bank Board in 2003 no longer exists due to subsequent environmental cost assistance provided by the Department of Water Resources.</p> <p>The only remaining anticipated termination event is that of "Non-consensual Termination of the 1998 IID/SDCWA Transfer Agreement" as defined in the Quantification Settlement Agreement. In sum, this is a termination by San Diego County Water Authority in 2038 following notification in 2018 that an acceptable agreement regarding water wheeling rates had not been achieved. See Appendix 1.</p>	<p>water capital improvements plus debt service on the Guaranteed Bonds⁴ (as defined below) for any reason except as a result of actions approved by or undertaken by the IID.</p> <p>This would include, for example, cessation or reduction in Conserved Water Revenues as a result of willful default by any purchaser of conserved water; as a result of any court-ordered delay or termination of transfers or purchases of conserved water⁵ or any court order requiring the IID to cease any Conserved Water Revenue generating activity in order to comply with environmental law, ordinances, regulations, approvals, agreements or permits; as a result of force majeure (war, Act of God, etc.); or as a result of cessation by IID of any Conserved Water Revenue generating activity upon a reasonable determination by IID that such cessation is necessary to prevent an IID</p>

⁴Any bonds guaranteed by I-Bank pursuant to the terms of this Clarified and Restated Preliminary Loan Guarantee Commitment.

⁵The validity of the QSA and Related Agreements is currently being litigated, and an unfavorable decision in this pending litigation could result in a termination or delay in receipt of Conserved Water Revenues.

Term/Condition	Clarification and Restatement of the 2003 Preliminary Loan Guarantee Commitment	IID Proposal
		violation of environmental laws, ordinances, regulations, approvals, agreements or permits.
Eligible Borrower	IID has provided documentation that it meets the definition of "Sponsor" in Government Code Section 63010(u) as a result of its status as a statutorily established special district. The Guaranteed Bonds ⁶ will be issued by IID.	

⁶ Any bonds guaranteed by I-Bank pursuant to the terms of this Clarified and Restated Preliminary Loan Guarantee Commitment.

Term/Condition	Clarification and Restatement of the 2003 Preliminary Loan Guarantee Commitment	IID Proposal
Eligible Project	<p>Projects to be financed through Guaranteed Bonds may be any of those described in Appendix 2 (collectively, the "Water Conservation Project"), provided that:</p> <ul style="list-style-type: none"> ■ The non-leak gate replacements described in Appendix 2 may be financed by Guaranteed Bonds only upon provision by IID to the I-Bank of water conservation estimates pertaining to this portion of the Water Conservation Project; and ■ The turnout gate measurement devices described in Appendix 2 may be financed through Guaranteed Bonds only upon confirmation to the satisfaction of I-Bank staff that such turnout gate measurement devices will assist the IID in meeting its contractual obligations under the QSA and Related Agreements⁷. 	
Eligible Costs	Project costs to be financed through Guaranteed Bonds may include the costs of construction or development of Eligible Projects; the acquisition and installation of machinery and equipment pertaining to Eligible Projects; financing costs of Eligible Projects; costs of capitalized interest of the Guaranteed	

⁷ The Quantification Settlement Agreement dated as of October 10, 2003, by and among IID, the Metropolitan Water District of Southern California, and Coachella Valley Water District, and the "Related Agreements" as defined in that Quantification Settlement Agreement as those agreements existed as of October 10, 2003.

Term/Condition	Clarification and Restatement of the 2003 Preliminary Loan Guarantee Commitment	IID Proposal
<p>Amount of Guarantee</p>	<p>Bonds during the period of construction or acquisition of Eligible Projects; debt service reserves related to Guaranteed Bonds; and other expenses incidental thereto.</p> <p>The maximum guarantee for the first series of Guaranteed Bonds, which must be issued during 2010: The then-current cash amount in the Guarantee Trust Account (currently approx. \$24 million). ("2010 Guarantee")</p> <p>The maximum guarantee for the second series of Guaranteed Bonds, which must be issued on or before December 31, 2015: A combination of (a) a subordinate interest in the 2010 Guarantee and (b) any amount in the Guarantee Trust Account over and above the maximum 2010 Guarantee amount, which amount may be as a result of interest earnings or Legislative appropriations (if any) pursuant to the reserve account requirements process (if the reserve account is established by the Legislature) set forth in Government Code section 63064. ("Second Series Guarantee")</p> <p>The maximum aggregate principal amount of Guaranteed Bonds will not exceed that amount necessary to result in bond proceeds, net of costs of issuance to include an underwriter's discount not greater than .8% and the funding of a maximum reserve account, of \$150 million.</p>	<p>The maximum guarantee for the first series of Guaranteed Bonds, which are anticipated by IID to be issued during 2010, but which must be issued at any time prior to December 31, 2015: The then-current cash amount in the Guarantee Trust Account (currently approx. \$24 million). ("2010 Guarantee").</p> <p>[No change to second or third paragraph.]</p>

Term/Condition	Clarification and Restatement of the 2003 Preliminary Loan Guarantee Commitment	IID Proposal
Credit Rating	Prior to the execution of either the 2010 Guarantee or the Second Series Guarantee, the related series of Guaranteed Bonds must have received an indicative rating of at least Baa1/BBB+/BBB+ (Moody's, S&P or Fitch, respectively) based solely on a pledge of Conserved Water Revenues, provided that the rating may be based on an assumption that the guaranteed early termination risk as set forth in "Purpose of the Guarantee" above will not take place.	
Debt Service Reserve Fund	Each series of Guaranteed Bonds must be secured by a debt service reserve fund in the maximum amount permitted under federal tax law. It is anticipated that the reserve fund for each series of Guaranteed Bonds will be funded from the proceeds of that series of Guaranteed Bonds. The applicable I-Bank guarantee may be drawn upon only following the exhaustion of the applicable debt service reserve fund.	
Amortization Pattern of Bonds	Each series of Guaranteed Bonds will have level debt service amortization.	

Term/Condition	Clarification and Restatement of the 2003 Preliminary Loan Guarantee Commitment	IID Proposal
Term of Bonds	Each series of Guaranteed Bonds will have a maximum maturity of no greater than 30 years from the date of issuance of the first series of Guaranteed Bonds.	Each series of Guaranteed Bonds will have a maximum maturity of no greater than 30 years from the date of issuance of that series of guaranteed Bonds.
Fixed Rate	Each series of Guaranteed Bonds will bear interest at fixed interest rates not to exceed 7% per annum.	
IID Resolution	IID Board issued the required resolution on September 29, 2009.	
Prevailing Wages	The Reimbursement and Indemnification Agreement (described below) will contain a certification by IID that the projects described in Appendix 2 will comply with Chapter 1 of Part 7 of Division 2 of the Labor Code (including prevailing wages).	
Funding of Guarantee Trust Account	The Guarantee Trust Account has been funded and is currently invested in the Pooled Money Investment Fund. Investment of this account must conform to Government Code section 63062.	

Term/Condition	Clarification and Restatement of the 2003 Preliminary Loan Guarantee Commitment	IID Proposal
Reserve Account Requirement	<p>I-Bank shall comply with Government Code section 63064 if a "reserve account requirement" for the Guarantee Trust Account is established by the California Legislature.</p> <p>IID anticipates working with the Legislature to have a reserve account requirement established for the purpose of establishing the Second Series Guarantee.</p> <p>I-Bank staff will report to the I-Bank Board on a monthly basis as to whether a reserve account requirement has been established.</p>	
Reimbursement and Indemnification Agreement	<p>Simultaneously with the execution of the 2010 Guarantee agreement and the Second Series Guarantee agreement, IID and I-Bank will enter into a "Reimbursement and Indemnification Agreement" each of which shall, at a minimum, include:</p> <ol style="list-style-type: none"> 1. IID's representations re: its status as a Sponsor; components of the Water Conservation Project and costs thereof to be funded with the proceeds of the Guaranteed Bonds; prevailing wages; and other representations required by the I-Bank. 2. IID's agreement to hold I-Bank harmless for and indemnify the I-Bank against any claims related to the issuance of the Guaranteed Bonds, the issuance of either the 2010 Guarantee or the Second Series Guarantee, or the acquisition, construction, development or operation of the Water Conservation Project, including but not limited to the 	

Term/Condition	Clarification and Restatement of the 2003 Preliminary Loan Guarantee Commitment	IID Proposal
	<p>portion of the Water Conservation Project financed by Guaranteed Bonds.</p> <p>3. IID's agreement to pay an annual monitoring fee to the I-Bank and to reimburse the I-Bank for its costs (see "fees" below).</p> <p>4. IID's agreement to reimburse the I-Bank for draws under the 2010 Guarantee or the Second Series Guarantee, as applicable, from Conserved Water Revenues, provided that the I-Bank's right to reimbursement will be subordinate to the rights to Conserved Water Revenues granted to the holders of the Guaranteed Bonds, the holders of any parity debt existing as of the date of this Preliminary Loan Guarantee Commitment ("Current Parity Debt"), or the holders of any parity debt subsequently issued in conformance with parity debt coverage and security requirements approved by the I-Bank ("Approved Parity Debt").</p> <p>5.4. Covenants and conditions usual and customary for a bond guarantee transaction, including but not limited to:</p> <ul style="list-style-type: none"> ■ Limitations on IID mergers, consolidations and asset sales; ■ IID's compliance with all laws; ■ IID's compliance with material obligations under the QSA and Related Agreements and the documents pertaining to the Guaranteed Bonds, any Current Parity 	<p>4. IID's agreement to reimburse the I-Bank for draws under the 2010 Guarantee or the Second Series Guarantee, as applicable, from Conserved Water Revenues, provided that the I-Bank's right to reimbursement will be subordinate to the rights to Conserved Water Revenues granted to the holders of all other IID debt existing or issued in the future, and after providing for all capital needs of IID, regardless of whether such capital needs are related to the Water Conservation Project or the production of Conserved Water Revenues.</p>

Term/Condition	Clarification and Restatement of the 2003 Preliminary Loan Guarantee Commitment	IID Proposal
	<p>Debt and any Approved Parity Debt;</p> <ul style="list-style-type: none"> ■ IID's maintenance of its status as a statutorily established water district; ■ IID's maintenance of adequate insurance for the Water Conservation Project (which may be self-insurance if adequately supported) and the application of any available insurance revenues prior to a draw on either the 2010 Guarantee or the Second Series Guarantee; ■ IID's timely construction, development, acquisition and installation of the Water Conservation Project, and efficient operation of the Water Conservation Project so as to maximize Conserved Water Revenues; ■ Annual certifications to the I-Bank as to the status of the construction and acquisition of the components of the Water Conservation Project funded with proceeds of Guaranteed Bonds to confirm that the financed project components and project costs conform to the requirements of the I-Bank Act and this Preliminary Loan Guarantee Commitment; ■ Debt service coverage ratios for Approved Parity Debt sufficient to avoid any impact by such parity debt on the rights of the I-Bank to receive reimbursement from Conserved Water Revenues; ■ Oversight and control of Conserved Water Revenues funds reasonably required to insure IID's compliance 	

Term/Condition	Clarification and Restatement of the 2003 Preliminary Loan Guarantee Commitment	IID Proposal
	<p>with its obligation to reimburse the I-Bank from Conserved Water Revenues.</p> <p>Prior to the approval by the I-Bank Board of any 2010 Guarantee agreement or Second Series Guarantee agreement or related Reimbursement and Indemnification Agreements, I-Bank staff must be presented with substantially final versions of documents pertaining to the issuance of proposed Guaranteed Bonds which adequately reflect IID's reimbursement and indemnification obligations, and the I-Bank's rights under the Reimbursement and Indemnification Agreement. Any change to the terms of those substantially final bond related documents must be consistent with the terms of any approved 2010 Guarantee or Second Series Guarantee, as applicable.</p>	
<p>Fees</p>	<p>Upon execution of the guarantee agreement for the 2010 Guarantee, IID will reimburse all I-Bank costs, including out-of-pocket legal and financial advisory fees and internal staff costs (on a documented hourly rate), incurred in connection with the issuance of this preliminary loan guarantee commitment and the guarantee agreement pertaining to the 2010 Guarantee.</p> <p>Upon the execution of the guarantee agreement for the Second Series Guarantee, the I-Bank will again be reimbursed for such costs.</p> <p>IID will pay an annual monitoring fee to the I-Bank in the amount approved by the I-Bank Board.</p>	

~~TERM SHEET -- Appendix 1~~

~~Article 4, Section 4.1(c) of Revised Fourth Amendment to Agreement Between
Imperial Irrigation District and San Diego County Water Authority for Transfer of
Conserved Water~~

~~4.1(c) Early Termination. The Authority may elect to terminate at the end of year
35 [2038] if conditions identified in (ii) below are satisfied;~~

~~* * * * *~~

~~(ii) Actual Wheeling Rate Trigger and Notice — If the Actual Wheeling
Rate as determined [through negotiation, arbitration or litigation by year 15
(2018)] exceeds one hundred twenty five percent (125%) of the Base Wheeling
Rate or the Authority has been unable to reach agreement with MWD or
complete binding arbitration, litigation or other dispute resolution mechanism,
then the Authority has the right to terminate this Agreement for Transfer of
Conserved Water as of the end of Agreement Year 35 [2038], but only if the
Authority gives notice of such early termination no later than the end of
Agreement Year 15 [2018].~~

TERM SHEET – Appendix 2

ELIGIBLE PROJECT AND ELIGIBLE COSTS SUMMARY

Proceeds from the Guaranteed Bonds will be used to finance a portion of the following public capital improvements (collectively, the "Water Conservation Project"). None of the portions of the Water Conservation Project funded from the proceeds of Guaranteed Bonds will be located on private property and all of the portions of the Water Conservation Project funded from the proceeds of Guaranteed Bonds will be owned and operated by IID. In compliance with federal tax laws, the weighted average maturity of the bonds issued by IID to finance the Water Conservation Project will not exceed 120% of the weighted average life of the portions of the Water Conservation Project so financed.

36 mid-lateral operating reservoirs - \$54,861,000 estimated

These reservoirs are expected to have capacities ranging from 8 to 75 acre-feet. Their main function is to provide for daily flow regulation as required by upstream and downstream water user demand changes thereby reducing spillage. Some reservoirs will be inline (built within the existing canals), and others will be located adjacent to existing laterals. Water inflow and outflow will be controlled either using pumps or by gravity. Costs associated with the mid-lateral operating reservoirs include earthwork, lining of the reservoirs as appropriate, acquisition and construction of automated control devices and other appurtenant improvements. The estimated water conserved from these reservoirs is 29,200 to 35,900 acre-feet.

34 delivery canal interconnections - \$42,318,000 estimated

Costs associated with the canal interconnections include the acquisition of intertie materials and construction of interconnections that route spill from the end or a spill structure of one lateral to an adjacent lateral via a lined canal or pipeline. Some of the interties will have associated reservoirs to regulate the flow into the receiving lateral. Other associated improvements include pumps, flow measurement and control devices such as weirs or flumes, and automated control gates. The canal interconnections work in conjunction with the Mid-valley collector system.

Mid-valley collector system - \$117,587,000 estimated

The Mid-valley collector system includes all costs associated with the upgrading of certain lateral canals to accommodate the spills captured by the canal interconnections. Additional costs include the construction of four new reservoirs ranging in size from 50 to 300 acre-feet with associated pumping plants and pipelines in order to regulate and distribute captured spills to water users. The central part of the Imperial Valley between the New and Alamo rivers is low and does not have enough irrigated area to use the entire captured spill that collects there. The Mid-valley collector

system collects existing system spill as well as spill that is routed to this low area from lateral interties to the south and moves this water to higher elevations in the north and west for customer use. The estimated water conserved from the canal interconnections and the Mid-valley collector system is 30,800 to 38,200 acre-feet.

20 non-leak gate replacements - \$250,000 estimated

Costs include acquisition and installation of non-leak gates. The non-leak gates are anticipated to be placed at sub-lateral headings that are not automated and where leakage is a problem.

5,500 farm turnout gate measurement devices - \$68,750,000 estimated

Costs include the acquisition and installation of measuring devices that provide real-time flow rate, water level measurement, and gate position. These systems utilize existing turnout delivery gates and structures.